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GLADWIN COMMUNITY SCHOOLS GLADWIN, MICHIGAN

FINANCIAL STATEMENTS JUNE 30, 2004

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GLADWIN AND WEST BRANCH

RSM McGladrey Network

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Independent Auditors' Report

July 29, 2004

To the Board of Education
Gladwin Community Schools
Gladwin, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gladwin Community Schools as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Gladwin Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Gladwin Community Schools as of June 30, 2004, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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To the Board of Education
Gladwin Community Schools
July 29, 2004

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated July 29, 2004, on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Required Supplemental Information

The management's discussion and analysis and budgetary comparison information on pages 3a through 3l and 24 are not a required part of the basic financial statements but are supplemental information required by the U.S. generally accepted accounting principles and Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Combining Financial Statements and Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gladwin Community Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Weinlander Fitzhugh

GLADWIN COMMUNITY SCHOOLS

Management's Discussion and Analysis

For the Year Ended June 30, 2004

Our discussion and analysis of the Gladwin Community School District's financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2004.

Financial Highlights

The School District's net assets increased by \$318,093 or 5%. Program revenues were \$1.7 million or 10 % of total revenues, and general revenues were \$15.2 million or 90%.

The General Fund reported a positive fund balance in excess of \$1.09 million.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Gladwin Community Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund – the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. The following summarizes the presentation in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- District-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Other Supplemental Information

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Reporting the District as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the School District's finances is, "Is the School District better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net assets as a way to measure the School District's financial position. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of School District.

Reporting the District's Most Significant Funds

Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The School District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

GLADWIN COMMUNITY SCHOOLS

Management's Discussion and Analysis

For the Year Ended June 30, 2004

Fiduciary Funds

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

District-wide Financial Analysis

The statement of net assets provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net assets as of June 30, 2004 and 2003:

	Exhibit A		Governmental Activities	
			(in millions)	
			2004	2003
Assets				
Current and other assets			\$ 5.5	\$ 4.8
Capital assets - net of accumulated depreciation			7.2	7.5
Total assets			12.7	12.3
Liabilities				
Current liabilities			4.1	2.8
Long-term liabilities			1.7	3.0
Total liabilities			5.8	5.8
Net Assets				
Invested in property and equipment - net of related debt			5.6	5.3
Restricted			0.9	0.7
Unrestricted			0.4	0.5
Total net assets			\$ 6.9	\$ 6.5

GLADWIN COMMUNITY SCHOOLS

Management's Discussion and Analysis

For the Year Ended June 30, 2004

The Table on the previous page, analysis focuses on net assets (see Exhibit A). The School District's net assets were \$6,854,655 at June 30, 2004. Capital assets, net of related debt was \$5,640,516, which compares the original costs, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt requirements and legislation that limit the School District's ability to use those net assets for day-to-day operations.

The \$362,275 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

GLADWIN COMMUNITY SCHOOLS

Management's Discussion and Analysis

For the Year Ended June 30, 2004

The results of this year's operations for the School District as a whole are reported in the statement of activities (Exhibit B), which shows the changes in net assets for the years ended June 30, 2004 and 2003.

	Governmental Activities	
	(in millions)	
	2004	2003
Revenue		
Program revenue:		
Charges for services	\$ 0.3	\$ 0.3
Grants and categoricals	1.4	1.5
General revenue:		
Property taxes	3.9	3.7
State foundation allowance	11.2	11.8
Other	0.1	0.2
Total revenue	<u>\$ 16.9</u>	<u>\$ 17.5</u>
Function/Program Expenses		
Instruction	\$ 10.5	\$ 10.4
Support services	4.7	6.0
Food services	0.6	0.5
Athletics	0.3	0.3
Interest on long-term debt	0.1	0.1
Depreciation (unallocated)	0.4	0.5
Total expenses	<u>16.6</u>	<u>17.8</u>
Change in Net Assets	<u>\$ 0.3</u>	<u>\$ (0.3)</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$16.6 million. Certain activities were partially funded from those who benefited from the programs (\$0.3 million) or by the other governments and organizations that subsidized certain programs with grants and categoricals (\$1.4 million). We paid for the remaining "public benefit" portion of our governmental activities with \$3.9 million in taxes, \$11.2 million in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

GLADWIN COMMUNITY SCHOOLS

Management's Discussion and Analysis For the Year Ended June 30, 2004

The School District experienced an increase in net assets of \$318,093. Key reasons for the change in net assets were decreases in spending on all supplies and not replacing prior year retirees. The increase in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

The School District's Funds

The School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

The School District's governmental funds reported a combined fund balance of \$1.96 million, which is comparable last year's total of \$2.0 million. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2004 and 2003.

	<u>Fund Balance</u> <u>June 30, 2004</u>	<u>Fund Balance</u> <u>June 30, 2003</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 1,092,120	\$ 1,266,719	\$ (174,599)
Special Revenue	19,139	21,725	(2,586)
Debt Service	851,864	718,507	133,357
Total	<u>\$ 1,963,123</u>	<u>\$ 2,006,951</u>	<u>\$ (43,828)</u>

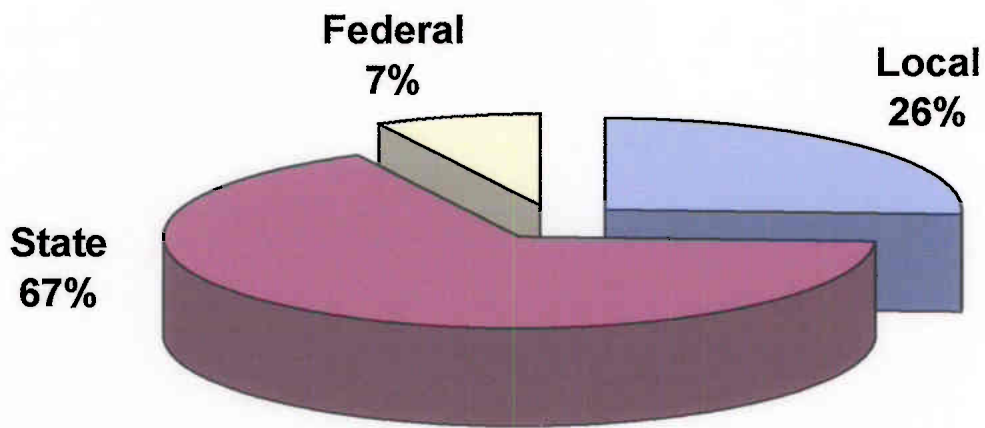
The School District completed this year with a combined fund balance decrease of \$43,828 from the previous year. The primary reasons for the decrease were due to decreased funding at the state level during the middle of the year, general fund contributions to the new track facility, early retirement incentives for support staff and certified staff and special education costs billed by the Clare-Gladwin Regional Education Service District.

- Our Special Revenue Funds had a decrease in fund balance due the purchase of equipment and increases in food costs in the Cafeteria Fund. The General Fund has advanced the \$240,428 to the Athletic Fund.
- Our Debt Service Fund is funded by local millage (tax collections). The increase was due to an increase in the tax base. The increase will be used for future bond payments.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2004

As the graph below illustrates, the largest portion of the School District's revenue comes from state sources. Sixty seven (67%) percent of the School District's revenue comes from state sources.

Sources of Revenue



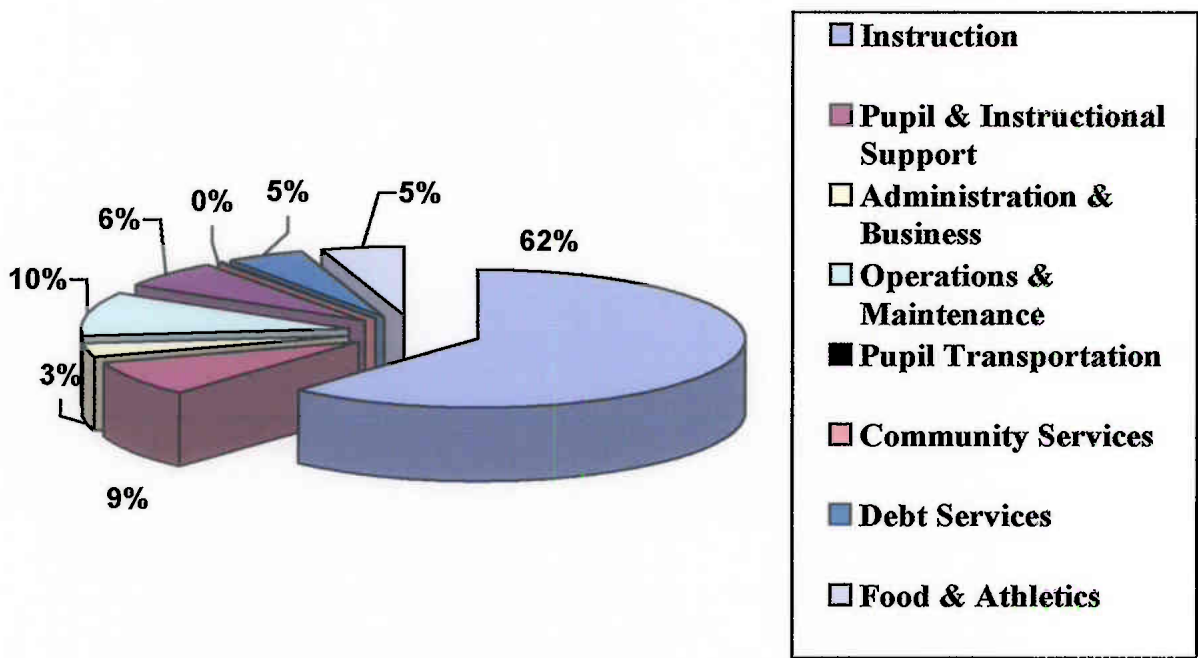
GLADWIN COMMUNITY SCHOOLS

Management's Discussion and Analysis

For the Year Ended June 30, 2004

The graph below illustrates 62% of the School District's resources are spent on instruction. Another 9% is spent on pupil and instructional support necessary to support the needs of the students of the School District, while 10% is spent for building operation and maintenance, including utilities and custodial services. The remaining 19% is spent on other support services.

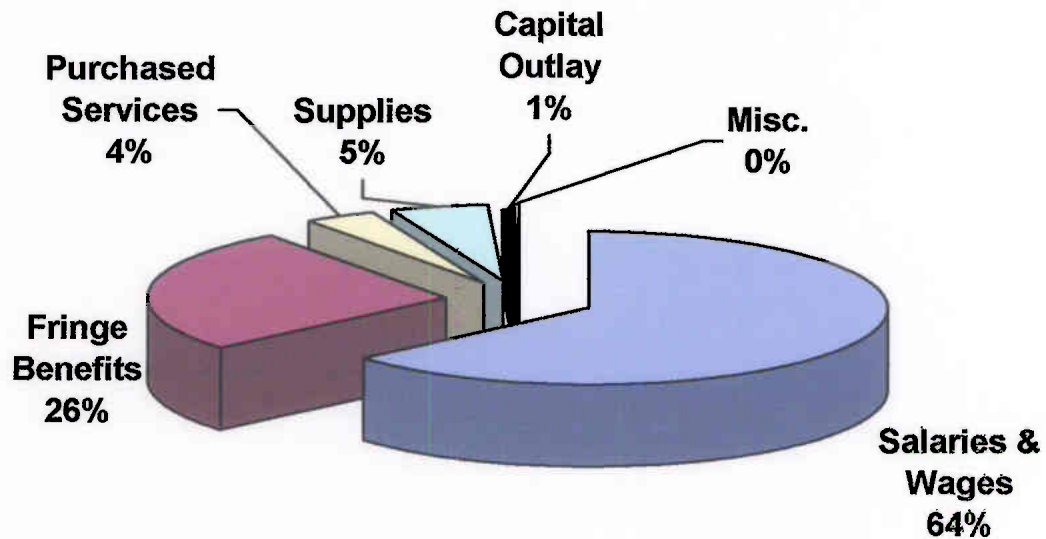
Expenditures



GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2004

As the graph below illustrates, the largest portions of general fund expenditures (excluding fund transfers) are for salaries and fringe benefits. The School District by nature is a labor intensive organization.

Expenditures by Natural Classification



	2004	2003
<i>Expenditures by Object</i>		
Salaries and Wages	\$ 9,647,049	\$ 9,693,689
Fringe Benefits	3,996,972	4,015,998
Purchased Services	614,017	810,147
Supplies	768,330	922,986
Capital Outlay	114,879	755,566
Miscellaneous	245,540	254,897
Total	<u>\$ 15,386,787</u>	<u>\$ 16,453,283</u>

Expenditures are down \$1,066,496 or 6.48% over the prior year. Mostly due to decreases in capital outlay and not replacing prior year retirees. Supply budgets were also reduced in all areas due to anticipated State funding cuts.

GLADWIN COMMUNITY SCHOOLS

Management's Discussion and Analysis

For the Year Ended June 30, 2004

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues decreased from the original budget by \$8,061. This amount was the sale of the building trades house and the old alternative education building set, which was setoff by the decrease in State funding. The overall change was immaterial.
- Budgeted expenditures increased from the original budget by \$63,568. This was due to the School Districts repairs and additions to the track and retirement incentives. The overall change was immaterial.
- There were no significant variances between the final revenue or expenditure budget and actual amounts.

Capital Assets

At June 30, 2004, the School District had \$7.2 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and disposals) of approximately \$258,482 or 3.4%, from last year.

	2004	2003
Land	\$ 121,920	\$ 121,920
Buildings	13,890,265	13,896,233
Buses and other vehicles	1,458,879	1,458,879
Furniture and equipment	644,395	615,811
Total capital assets	16,115,459	16,092,843
Less accumulated depreciation	8,866,723	8,585,625
Net capital assets	\$ 7,248,736	\$ 7,507,218

This year's additions were for \$202,662 of track improvements and \$28,584 for the phone systems in the junior and senior high schools. General operating funds and donations were used for the track improvements. The phone system is being purchased with a capital lease.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Capital Assets (Continued)

We will be making major capital additions in the 2004-2005 and 2005-2006 school year. The Gladwin Community Schools voter population approved a \$11,600,000 bond proposal on August 30, 2004 which will allow the school district to construct an addition to the elementary school, do minor repair/remodeling in the intermediate school and major renovating in the junior high school. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$1.4 million in bonds outstanding versus \$2.0 million in the previous year – a change of 30%. Those bonds consisted of the following:

	<u>2004</u>	<u>2003</u>
General Obligation Bonds	\$ 1,270,000	\$ 1,905,000
Durant Bonds	136,399	136,399
	<u>\$ 1,406,399</u>	<u>\$ 2,041,399</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit

Factors Expected to have an Effect on Future Operations

Our elected Board and administration consider many factors when setting the School District's 2004 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2004 fiscal year budget was adopted in June 2004, based on an estimate of students that will be enrolled in September 2004. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2004-2005 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2004 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

GLADWIN COMMUNITY SCHOOLS

Management's Discussion and Analysis

For the Year Ended June 30, 2004

Factors Expected to have an Effect on Future Operations (Continued)

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds will not fund the appropriation.

Requests For Information

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Superintendent
Gladwin Community School District
1206 N. Spring Street
Gladwin, Michigan 48624

GLADWIN COMMUNITY SCHOOLS
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and investments	\$ 3,321,121
Receivables:	
Accounts receivable	25,783
Due from other governmental units	2,023,592
Inventories	3,244
Prepaid expense	68,282
Capital assets less accumulated depreciation	<u>7,248,736</u>
Total assets	<u>12,690,758</u>
<u>Liabilities</u>	
State aid note payable	2,700,000
Accrued payroll and other liabilities	802,544
Long-term liabilities:	
Due within one year	658,895
Due in more than one year	<u>1,674,664</u>
Total liabilities	<u>5,836,103</u>
<u>Net Assets</u>	
Investment in capital assets - net of related debt	5,640,516
Restricted for debt service	851,864
Unrestricted	<u>362,275</u>
Total net assets	<u>\$ 6,854,655</u>

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS

Statement of Activities

For the Year Ended June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental</u>
		<u>Charges for</u>	<u>Operating Grants/</u>	<u>Activities</u>
		<u>Services</u>	<u>Contributions</u>	<u>Net (Expense)</u>
				<u>Revenue and</u>
				<u>Changes in Net</u>
				<u>Assets</u>
Primary government -				
Governmental activities				
Instruction	\$10,469,932	\$ 9,973	\$ 888,604	\$ (9,571,355)
Support services	4,661,241	8,825	186,748	(4,465,668)
Food services	551,810	206,915	335,293	(9,602)
Athletics	310,519	70,767	0	(239,752)
Interest on long-term debt	130,168	0	0	(130,168)
Depreciation (unallocated)	443,893	0	0	(443,893)
Total governmental activities	<u>\$16,567,563</u>	<u>\$ 296,480</u>	<u>\$ 1,410,645</u>	<u>(14,860,438)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				3,000,894
Property taxes, levied for debt services				854,850
State aid not restricted to specific purposes				11,164,573
Interest and investment earnings				16,667
Gain on sale of capital assets				9,380
Other				132,167
Total general revenues				<u>15,178,531</u>
Change in Net Assets				318,093
Net assets - beginning of year				<u>6,536,562</u>
Net assets - end of year				<u>\$ 6,854,655</u>

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
Governmental Funds
Balance Sheet
June 30, 2004

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments	\$ 2,491,337	\$ 829,784	\$ 3,321,121
Receivables:			
Accounts receivable	22,293	460	22,753
Due from other funds	31,962	66,447	98,409
Due from other governmental units	2,023,592	0	2,023,592
Prepaid expenditures	68,282	0	68,282
Inventories	0	3,244	3,244
	<u>0</u>	<u>3,244</u>	<u>3,244</u>
Total Assets	<u>\$ 4,637,466</u>	<u>\$ 899,935</u>	<u>\$ 5,537,401</u>
<u>Liabilities and Fund Balances</u>			
<u>Liabilities</u>			
State aid note payable	\$ 2,700,000	\$ 0	\$ 2,700,000
Accrued payroll and other liabilities	778,899	0	778,899
Due to other funds	66,447	28,932	95,379
	<u>66,447</u>	<u>28,932</u>	<u>95,379</u>
Total liabilities	<u>3,545,346</u>	<u>28,932</u>	<u>3,574,278</u>
<u>Fund Balances</u>			
Reserved for inventories	0	3,244	3,244
Reserved for debt service	0	851,864	851,864
Unreserved / Undesignated	1,092,120	15,895	1,108,015
	<u>1,092,120</u>	<u>871,003</u>	<u>1,963,123</u>
Total fund balances	<u>1,092,120</u>	<u>871,003</u>	<u>1,963,123</u>
Total Liabilities and Fund Balances	<u>\$ 4,637,466</u>	<u>\$ 899,935</u>	<u>\$ 5,537,401</u>

See accompanying notes to financial statements

GLADWIN COMMUNITY SCHOOLS
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2004

Total fund balances - governmental funds	\$1,963,123
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
Cost of the capital assets	16,115,459
Accumulated depreciation	(8,866,723)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(1,406,399)
Land contract payable	(174,160)
Capital leases	(27,661)
Compensated balances	(725,339)
Accrued interest payable is not included as a liability in governmental activities	<u>(23,645)</u>
Total net assets - governmental activities	<u>\$6,854,655</u>

See accompanying notes to financial statements

GLADWIN COMMUNITY SCHOOLS
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2004

	General	Other Nonmajor Governmental Funds	Totals
<u>Revenues</u>			
Local sources:			
Property taxes	\$2,996,184	\$ 859,560	\$3,855,744
Other	222,847	277,682	500,529
State sources	11,289,356	24,712	11,314,068
Federal sources	950,569	310,581	1,261,150
Total revenues	<u>15,458,956</u>	<u>1,472,535</u>	<u>16,931,491</u>
<u>Expenditures</u>			
Current:			
Instruction	10,450,602	0	10,450,602
Support services	4,844,709	0	4,844,709
Community services	15,866	0	15,866
Food service	0	551,810	551,810
Athletics	0	310,519	310,519
Debt service:			
Principal	36,646	635,000	671,646
Interest and other	38,965	91,203	130,168
Total expenditures	<u>15,386,787</u>	<u>1,588,532</u>	<u>16,975,319</u>
Excess (deficiency) of revenues over expenditures	<u>72,169</u>	<u>(115,997)</u>	<u>(43,828)</u>
<u>Other Financing Sources (Uses)</u>			
Operating transfers in from other funds	0	246,768	246,768
Operating transfers out to other funds	(246,768)	0	(246,768)
Total other financing sources (uses)	<u>(246,768)</u>	<u>246,768</u>	<u>0</u>
Net change in fund balances	(174,599)	130,771	(43,828)
Fund balances - beginning of year	1,266,719	740,232	2,006,951
Fund balances - end of year	<u>\$1,092,120</u>	<u>\$ 871,003</u>	<u>\$1,963,123</u>

See accompanying notes to financial statements

GLADWIN COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2004

Net change in fund balances - total governmental funds	\$ (43,828)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report loan proceeds and sales of assets as revenue; in the statement of activities, these financial resources are not reported as revenue	(88,332)
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(443,893)
Capital outlay	231,246
Gain on disposal of capital asset	9,380
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(593)
Repayment of loans are an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	671,646
Increases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6	(17,533)
Change in net assets of governmental activities	<u>\$ 318,093</u>

See accompanying notes to financial statements

GLADWIN COMMUNITY SCHOOLS
Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2004

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and investments	<u>\$ 165,721</u>
<u>Liabilities</u>	
Due to student groups	162,691
Due to other funds	<u>3,030</u>
	<u>\$ 165,721</u>

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Gladwin Community Schools (the “School District”) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District’s reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statement

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The School District reports the following major governmental fund:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both district-wide and fund financial statements. Bond issuance costs are reflected only in the district wide financial statements and will be amortized over a twelve year period.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10-50 years
Buses and other vehicles	8 years
Furniture and equipment	5-20 years

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences – The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Property Taxes – For Gladwin Community Schools taxpayers, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

State Aid – For the fiscal year ended June 30, 2004, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2004, the foundation allowance was based on the average pupil membership counts taken in February and September of 2003.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2003 – August 2004. The local revenue is recognized as outlined in Note 1 Basis of Accounting. Amounts receivable from the State of Michigan at June 30, 2004 (included in due/from other governmental units) relating to state aid is \$2,023,592.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.

Gladwin Community Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

During the year ended June 30, 2004, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 2 – BUDGETS (CONTINUED)

<u>Fund/Function</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund:			
Basic programs	\$ 6,442,132	\$ 6,583,367	\$ (141,235)
Pupil	227,072	229,295	(2,223)
Instructional staff	178,078	215,933	(37,855)
School Administration	924,937	1,007,891	(82,954)
Transportation	1,028,772	1,096,209	(67,437)
Debt Service	48,400	74,687	(26,287)
Special Revenue Fund:			
Cafeteria Fund	519,804	551,810	(32,006)

NOTE 3 – DEPOSITS AND INVESTMENTS

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and investments	<u>\$ 3,321,121</u>	<u>\$ 165,721</u>	<u>\$ 3,486,842</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 2,584,163
Investments in securities, mutual funds, and similar vehicles	900,879
Petty cash and cash on hand	<u>1,800</u>
Total	<u>\$ 3,486,842</u>

The deposits of the School District were reflected in the accounts of financial institutions at \$895,805, of which \$100,000 is covered by federal depository insurance.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments are categorized into these three categories of credit risk:

Category 1 – Insured or registered, or securities held by the School District or its agent in the School District's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the School District's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the School District's name.

The School District does not carry investments that can be categorized as of June 30, 2004.

Investments not subject to categorization:

Interlocal agreement investment
pools (i.e., MILAF)

\$ 792,788

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 4 - CAPITAL ASSETS

A summary of changes in Governmental capital assets follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Assets not being depreciated - land	\$ 121,920	\$ 0	\$ 0	\$ 121,920
Capital assets being depreciated:				
Building and improvements	13,896,233	202,662	(208,630)	13,890,265
Buses and other vehicles	1,458,879	0	0	1,458,879
Furniture and equipment	615,811	28,584	0	644,395
Subtotal	15,970,923	231,246	(208,630)	15,993,539
Accumulated depreciation:				
Building and improvements	7,221,722	258,099	(162,795)	7,317,026
Buses and other vehicles	1,100,623	115,760	0	1,216,383
Furniture and equipment	263,280	70,034	0	333,314
Subtotal	8,585,625	443,893	(162,795)	8,866,723
Net capital assets being depreciated	7,385,298	(212,647)	(45,835)	7,126,816
Net capital assets	<u>\$ 7,507,218</u>	<u>\$ (212,647)</u>	<u>\$ (45,835)</u>	<u>\$7,248,736</u>

Depreciation for fiscal year ended June 30, 2004 amounted to \$443,893. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES, AND TRANSFERS

A summary of inter-fund receivable and payable balances at June 30, 2004 and transfers made during the year ended June 30, 2004 is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 125,590	\$ 65,075	\$ 0	\$ 246,768
Special Revenue:				
Athletics	0	93,628	240,428	0
Food Service	33,589	28,932	6,340	0
Debt	31,486	0	0	0
Fiduciary Fund	<u>0</u>	<u>3,030</u>	<u>0</u>	<u>0</u>
	<u>\$ 190,665</u>	<u>\$ 190,665</u>	<u>\$ 246,768</u>	<u>\$ 246,768</u>

These interfund receivable and payable balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

Transfers are used to (1) supplement athletic operational costs, and (2) reflect funding support for operating costs.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 6 – LONG-TERM DEBT

The following is a summary of governmental long-term obligations for the District for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Retirements and Payments	Balance June 30, 2004	Amount Due Within One Year
Bonds	\$ 2,041,399	\$ 0	\$ 635,000	\$ 1,406,399	\$ 635,000
Land contract	192,614	0	18,454	174,160	19,586
Capital leases	17,269	28,584	18,192	27,661	4,309
Retirement stipends and compensated absences	707,784	19,597	2,042	725,339	0
Total	<u>\$ 2,959,066</u>	<u>\$ 48,181</u>	<u>\$ 673,688</u>	<u>\$ 2,333,559</u>	<u>\$ 658,895</u>

Bonds payable at June 30, 2004 is comprised of the following issues:

\$6,065,000 General Obligation Bonds due in annual installments of \$635,000 through May 1, 2006, interest at 3.00% to 4.80%	\$ 1,270,000
\$213,501 Durant Non-Plaintiff serial bonds due in annual installments of \$10,334 to \$49,901 through May 15, 2013; interest at 4.76%	<u>136,399</u>
Total Bonded Debt	<u>\$ 1,406,399</u>

The Durant Non-Plaintiff bond, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

The Durant Non-Plaintiff bond is a self-liquidating bond and is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations. This Bond is payable both as to principal and interest solely from the State Aid payments described in the preceding paragraph.

Gladwin Community Schools entered into a land contract obligation on May 25, 2002 for a building to be used for the alternative education program in the amount of \$210,000. The land contract calls for quarterly installments with interest at 6%. The principal balance at June 30, 2004 was \$174,160.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 6 – LONG-TERM DEBT (CONTINUED)

The District has entered into a long-term lease agreement for phone systems for the junior and senior high schools. Depreciation of this phone system is included in depreciation expense. The following is a schedule by years of future minimum lease payments under capital leases as of June 30, 2004:

2005	\$ 8,136
2006	8,136
2007	8,136
2008	8,136
2009	<u>6,224</u>
	\$ 38,768
Amount representing interest	<u>(11,107)</u>
	<u><u>\$ 27,661</u></u>

Under the terms of the present contracts between the Board of Education of Gladwin Community Schools and the various employee groups, including teachers, administration, custodians, bus drivers and extra support personnel, the District is contingently liable for compensated absences (sick pay) and retirement stipends pay. The amount of compensated absences and retirement stipends, calculated based on number of years of service, amounted to \$402,575 and \$322,764, respectively at June 30, 2004.

The annual requirements to amortize bonds, land contracts and capital leases outstanding as of June 30, 2004 including interest payments are as follows

Year Ended June 30	Principal	Interest	Total
2005	\$ 658,895	\$ 74,166	\$ 733,061
2006	671,117	47,092	718,209
2007	38,679	14,047	52,726
2008	80,031	28,456	108,487
2009	42,587	8,231	50,818
2010-2015	<u>116,911</u>	<u>11,497</u>	<u>128,408</u>
	<u><u>\$ 1,608,220</u></u>	<u><u>\$ 183,489</u></u>	<u><u>\$ 1,791,709</u></u>

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 7 – SHORT-TERM DEBT ACTIVITY

The District issues state aid anticipation notes in advance of State of Michigan state aid payments, depositing the proceeds in its General Fund. These notes are necessary because the District's cash flow obligation to operating expenses precede the collection of state aid.

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
State aid anticipation notes	<u>\$ 2,000,000</u>	<u>\$ 2,700,000</u>	<u>\$ 2,000,000</u>	<u>\$ 2,700,000</u>

NOTE 8 – RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and participates in the SET-SEG risk pool for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

The SET-SEG shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 9 – DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 11 – DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

The pension benefit rate totals 12.99% for the period from July 1, 2003 through September 30, 2004 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS plan for the years ended June 30, 2004, 2003, and 2002 were \$1,248,060, \$1,264,510 and \$1,092,927, respectively.

Postemployment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

NOTE 12 – GRANTS

The District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the District administration believes such disallowance, if any, would be immaterial.

NOTE 13 – ECONOMIC DEPENDENCY

The District received approximately 73% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the District, the District is considered to be economically dependent.

NOTE 14 – SUBSEQUENT EVENTS

The Gladwin Community Schools voter population approved a \$11,600,000 bond proposal on August 30, 2004 which will allow the school district to construct an addition to the elementary school, complete minor repair/remodeling in the intermediate school and major renovating in the junior high school.

Required Supplemental Information

GLADWIN COMMUNITY SCHOOLS
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual
<u>Revenues</u>			
Local sources	\$ 3,049,183	\$ 3,457,582	\$ 3,219,031
State sources	11,591,692	11,235,457	11,289,356
Federal sources	958,383	898,158	950,569
Total revenues	15,599,258	15,591,197	15,458,956
<u>Expenditures</u>			
Instruction:			
Basic programs	6,390,573	6,442,132	6,583,367
Added needs	3,902,743	3,903,870	3,675,344
Adult and continuing education	239,822	221,889	191,891
Support services:			
Pupil	239,001	227,072	229,295
Instructional staff	198,845	178,078	215,933
General administration	307,883	285,504	273,606
School administration	928,075	924,937	1,007,891
Business services	301,214	322,256	301,485
Operations and maintenance	1,654,712	1,731,887	1,720,291
Transportation	1,043,680	1,028,772	1,096,209
Debt service	52,386	48,400	75,611
Community services	8,279	15,984	15,866
Total expenditures	15,267,213	15,330,781	15,386,787
Excess of revenue over expenditures	332,045	260,416	72,169
<u>Other Financing Sources (Uses)</u>			
Operating transfers out to other funds	(331,887)	(325,757)	(246,768)
Total other financing sources (uses)	(331,887)	(325,757)	(246,768)
Changes in fund balance	158	(65,341)	(174,599)
Fund balance - beginning of year	1,266,719	1,266,719	1,266,719
Fund balance - end of year	\$ 1,266,877	\$ 1,201,378	\$ 1,092,120

Other Supplemental Information

GLADWIN COMMUNITY SCHOOLS
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	<u>Special Revenue Funds</u>		Debt	<u>Total</u>
	<u>Athletic</u> <u>Activities</u>	<u>Food</u> <u>Service</u>	<u>Service Fund</u> 1994 <u>Issue</u>	
<u>Assets</u>				
Cash and investments	\$ 1,870	\$ 7,536	\$ 820,378	\$ 829,784
Receivables - net:				
Accounts	0	460	0	460
Due from other funds	1,372	33,589	31,486	66,447
Inventories	0	3,244	0	3,244
Total Assets	<u>\$ 3,242</u>	<u>\$ 44,829</u>	<u>\$ 851,864</u>	<u>\$ 899,935</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Due to other funds	<u>\$ 0</u>	<u>\$ 28,932</u>	<u>\$ 0</u>	<u>\$ 28,932</u>
<u>Fund Balances</u>				
Reserved for inventories	0	3,244	0	3,244
Reserved for debt service	0	0	851,864	851,864
Unreserved/Undesignated	3,242	12,653	0	15,895
Total fund balances	<u>3,242</u>	<u>15,897</u>	<u>851,864</u>	<u>871,003</u>
Total liabilities and fund balances	<u>\$ 3,242</u>	<u>\$ 44,829</u>	<u>\$ 851,864</u>	<u>\$ 899,935</u>

GLADWIN COMMUNITY SCHOOLS
Other Supplemental Information
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended June 30, 2004

	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>	
	<u>Athletic Activities</u>	<u>Food Services</u>	<u>1994 Issue</u>	<u>Total</u>
<u>Revenues</u>				
Local	\$ 70,767	\$ 206,915	\$ 859,560	\$1,137,242
State	0	24,712	0	24,712
Federal	0	310,581	0	310,581
Total revenues	<u>70,767</u>	<u>542,208</u>	<u>859,560</u>	<u>1,472,535</u>
<u>Expenditures</u>				
Current:				
Food services	0	551,810	0	551,810
Athletics	310,519	0	0	310,519
Debt service:				
Principal	0	0	635,000	635,000
Interest and other	0	0	91,203	91,203
Total expenditures	<u>310,519</u>	<u>551,810</u>	<u>726,203</u>	<u>1,588,532</u>
Excess (deficiency) of revenues over expenditures	<u>(239,752)</u>	<u>(9,602)</u>	<u>133,357</u>	<u>(115,997)</u>
<u>Other Financing Sources</u>				
Operating transfers in from other funds	<u>240,428</u>	<u>6,340</u>	<u>0</u>	<u>246,768</u>
Total other financing sources	<u>240,428</u>	<u>6,340</u>	<u>0</u>	<u>246,768</u>
Net change in fund balance	676	(3,262)	133,357	130,771
Fund balances - beginning of year	<u>2,566</u>	<u>19,159</u>	<u>718,507</u>	<u>740,232</u>
Fund balances - end of year	<u>\$ 3,242</u>	<u>\$ 15,897</u>	<u>\$ 851,864</u>	<u>\$ 871,003</u>

GLADWIN COMMUNITY SCHOOLS
Other Supplemental Information
Schedule of Bonded Indebtedness
For the Year Ended June 30, 2004

PURPOSE The bonds were issued to refinance the 1986 general obligation bonds, which were originally issued to pay the costs for constructing the high school building, remodeling school buildings and improving sites.

DATE OF ISSUE January 25, 1994

AMOUNT OF ISSUE \$ 6,065,000

AMOUNT OF RETIRED

During prior years	\$4,160,000	
During current year	635,000	4,795,000

BALANCE OUTSTANDING - June 30, 2004 \$ 1,270,000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	4.70%	\$ 635,000	\$ 60,325	\$ 695,325
2006	4.80%	635,000	30,480	665,480
		\$ 1,270,000	\$ 90,805	\$ 1,360,805

GLADWIN COMMUNITY SCHOOLS
Other Supplemental Information
Schedule of Bonded Indebtedness
For the Year Ended June 30, 2004

PURPOSE Remodeling school buildings and improving sites.

DATE OF ISSUE November 24, 1998

AMOUNT OF ISSUE \$213,501

<u>AMOUNT OF RETIRED</u>			
	During prior years	\$ 77,102	
	During current year	<u>0</u>	<u>77,102</u>

<u>BALANCE OUTSTANDING - June 30, 2004</u>	<u>\$ 136,399</u>
--	-------------------

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	4.76%	\$ 0	\$ 0	\$ 0
2006	4.76%	10,334	4,658	14,992
2007	4.76%	10,824	4,166	14,990
2008	4.76%	49,901	20,850	70,751
2009-2013	4.76%	<u>65,340</u>	<u>9,622</u>	<u>74,962</u>
		<u>\$ 136,399</u>	<u>\$ 39,296</u>	<u>\$ 175,695</u>



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July 29, 2004

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Gladwin Community Schools
Clare, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gladwin Community Schools as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated July 29, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gladwin Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Board of Education
Gladwin Community Schools
July 29, 2004

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gladwin Community Schools' basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Board of Education, management and related regulatory agencies and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



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July 29, 2004

Board of Education
Gladwin Community Schools
Gladwin, Michigan

This letter is intended to inform the Board of Education of Gladwin Community Schools about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Board of Education.

The following summarizes various matters which must be communicated to you under U.S. generally accepted auditing standards.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

Our audit of the financial statements of Gladwin Community Schools for the year ended June 30, 2004 was conducted in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audit accomplished that objective.

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Board of Education
Gladwin Community Schools
July 29, 2004
Page 2

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions and laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with the types of compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the School District's compliance with those requirements.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based on management's current knowledge. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgment about accounting estimates, and we considered this information in the scope of our audit. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

Audit Adjustments

There were audit adjustments made to the original trial balance presented to us to begin our audit. In our judgment, the adjustments we proposed, either individually or in the aggregate, are not considered to have a significant effect on the District's financial reporting process.

Accounting Policies and Alternative Treatments

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the District. The District did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period which should be brought to your attention for approval.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.



WEINLANDER FITZHUGH

Board of Education
Gladwin Community Schools
July 29, 2004
Page 3

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultation with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing related matters.

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.



WEINLANDER FITZHUGH

Board of Education
Gladwin Community Schools
July 29, 2004
Page 4

Other Matters

Internal Control Policies

Statement on Auditing Standard (SAS) No. 99, requires auditors to assess risks of fraud after taking into account the evaluation of the School District's programs and controls to prevent, deter and detect fraud. As part of our responsibilities under SAS 99, we have addressed the risk assessment by performing inquiries, completing comprehensive checklists and performing other procedures designed to detect fraud risk factors. SAS 99 further states that it is management's responsibility for designing and implementing effective systems and procedures for preventing, deterring and detecting fraud. While we did not identify any specific fraud risks, we recommend the School District periodically review the controls in place to prevent, deter and detect fraud.

In order for the management to demonstrate its responsibility for overseeing the School District's risk assessment and monitoring process, we also recommend that the board policies be revised to include a formal antifraud policy which includes certain procedures and controls in place to prevent, deter and detect fraud.

Title I Administration

During the single audit of federal programs administered by the School District, it was noted that certain compliance requirements of Title I were not being addressed (i.e. periodic certifications from individuals working solely for Title I). While these certain requirements may not seem to be material to the single audit results, they are measures which require compliance with federal law. We recommend that the School District consider naming an individual to the Title I director position who is acquainted with and has the ability to monitor the requirements of the Title I program.

Internal Control - Agency or Student Activity Funds:

As part of our responsibilities under SAS 99, we made inquiries of District personnel and reviewed internal controls to facilitate the enhancement of existing controls. The following are recommendations to enhance the current internal controls over operations.

1. We recommend the creation of a standardized receipt form to be completed by all student groups who deliver funds for deposit and safekeeping.
2. We recommend that required counts to verify amounts delivered for deposit be performed in the administrative office for validation by an independent third party.



WEINLANDER FITZHUGH

Board of Education
Gladwin Community Schools
July 29, 2004
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Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Gladwin Community Schools.

This report is intended solely for the information of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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GLADWIN COMMUNITY SCHOOLS GLADWIN, MICHIGAN

SINGLE AUDIT ACT REPORTS JUNE 30, 2004

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July 29, 2004

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Gladwin Community Schools
Gladwin, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gladwin Community Schools as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated July 29, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gladwin Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Board of Education
Gladwin Community Schools
July 29, 2004

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gladwin Community Schools' basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Board of Education, management and related regulatory agencies and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

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July 29, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Gladwin Community Schools
Gladwin, Michigan

Compliance

We have audited the compliance of Gladwin Community Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Gladwin Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Gladwin Community Schools' management. Our responsibility is to express an opinion on Gladwin Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gladwin Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides

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Board of Education
Gladwin Community Schools
July 29, 2004

a reasonable basis for our opinion. Our audit does not provide a legal determination of Gladwin Community Schools' compliance with those requirements.

In our opinion, Gladwin Community Schools' complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Financial Reporting

The management of Gladwin Community Schools' is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Gladwin Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gladwin Community Schools as of and for the year ended June 30, 2004, and have issued our report thereon dated July 29, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Gladwin Community Schools' basic financial



WEINLANDER FITZHUGH

Board of Education
Gladwin Community Schools
Clare, Michigan

statements. The accompanying schedule of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Board of Education, management and related regulatory agencies and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Weinlander Fitzhugh

GLADWIN COMMUNITY SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

SECTION I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐yes ☒no

Reportable condition(s) identified not considered to be material weaknesses?
☐yes ☒none reported

Noncompliance material to financial statements noted? ☐yes ☒no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? ☐yes ☒no

Reportable condition(s) identified not considered to be material weaknesses?
☐yes ☒none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? ☐yes ☒no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	ECIA Title I
84.367	Improving Teacher Quality

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒yes ☐no

SECTION II - Financial Statement Findings

There are no matters reported.

SECTION III - Federal Award Findings and Questioned Costs

There are no matters reported.

GLADWIN COMMUNITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2003	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2004
<u>U.S. Department of Education</u>								
Passed through Michigan								
Department of Education:								
Adult Education - State Administration								
Project 41130-410784	84.002	\$ 30,000	\$ 0	\$ 0	\$ 0	\$ 30,000	\$ 30,000	\$ 0
Project 41190-410784	84.002	19,098	0	0	0	16,098	16,098	0
			0	0	0	46,098	46,098	0
ECIA Title I								
Project 31530-0203	84.010	682,460	613,481	97,763	0	166,742	68,979	0
Project 41530-0304	84.010	619,115	0	0	0	619,115	619,115	0
			613,481	97,763	0	785,857	688,094	0
Homeless Children & Youths								
Project 032320-0203	84.196	30,000	6,408	6,408	(23,592)	6,408	0	0
ECIA Title V								
Project 020250-0203	84.298	14,011	14,011	3,701	0	3,701	0	0
Project 040250-0304	84.298	14,038	14,038	0	0	13,573	13,573	0
			28,049	3,701	0	17,274	13,573	0
Technology Literacy Challenge								
Project 44290-0304	84.318	14,989	0	0	0	14,989	14,989	0
Rural and Low Income Schools								
Project 30660-0304	84.358	41,519	41,519	41,519	0	41,519	0	0
Improving Teacher Quality								
Project 30520-0203	84.367	175,713	175,713	103,745	0	103,745	0	0
Project 40520-0304	84.367	170,460	0	0	0	170,460	170,460	0
			175,713	103,745	0	274,205	170,460	0
School Renovation, IDEA & Tech Program								
Project 022410-2A	84.352	26,411	26,411	2,411	0	2,411	0	0
Passed through Clare-Gladwin RESD:								
McKinney Grant								
Project 032320-0203	84.186	30,000	6,408	0	0	0	5,000	5,000
Passed through Gratiot-Isabella RESD								
Drug Free								
	84.186	7,802	0	0	0	7,802	7,802	0
Total U.S. Department of Education			897,989	255,547	(23,592)	1,196,563	946,016	5,000
<u>U.S. Department of Health and Human Services</u>								
Passed through Michigan								
Department of Education:								
Temporary Assistance for Needy Families								
(FTT grant)								
	93.558	5,000	0	0	0	3,681	4,553	872
<u>U.S. Department of Agriculture</u>								
Passed through Michigan Department								
of Education:								
Nutrition Cluster								
Breakfast	10.553	55,094	0	0	0	55,094	55,094	0
Sec. 4 and 11 - Free and Reduced	10.555	231,798	0	0	0	231,798	231,798	0
Special milk program	10.556	707	0	0	0	707	707	0
Food Distribution								
Entitlement Commodities	10.550	20,210	0	0	0	20,210	20,210	0
Bonus Commodities	10.550	2,772	0	0	0	2,772	2,772	0
Total U.S. Department of Agriculture			0	0	0	310,581	310,581	0
Grant Total			\$ 897,989	\$ 255,547	\$ (23,592)	\$ 1,510,825	\$ 1,261,150	\$ 5,872

See accompanying notes to financial statements

GLADWIN COMMUNITY SCHOOLS
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

NOTE 1 – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Gladwin Community Schools and is presented in the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations.

NOTE 2 – OTHER DISCLOSURES

Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.

NOTE 3 – ADJUSTMENTS

Grant project number 032320-0203 was reduced by \$23,592. This grant was adjusted to the amount expended by the School District